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Message Text

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DRAFTED BY TREASURY: MR. SYVRUD
APPROVED BY EUR/WE/ REBARBOUR
EB - P. BOEKER
---------- 124368 /46
O 141507Z DEC 76
FM SECSTATE WASHDC
TO AMEMBASSY LISBON IMMEDIATE

C O N F I D E N T I A L STATE 302716

E.O. 11652: GDS

TAGS: EFIN, EAID, PO

SUBJECT:STATEMENT OF POLICY

1. FOLLOWING IS THE DRAFT STATEMENT OF POLICIES WHICH HAS BEEN DRAFTED BY TREASURY FOR THE CONSIDERATION OF THE GOP. EMBASSY IS AUTHORIZED TO PASS DOCUMENT ON CONFIDENTIAL BASIS TO PORTUGUESE GOVERNMENT.

2. BEGIN TEXT:

DEAR MR. SECRETARY:

IN VIEW OF THE CLOSE COLLABORATION BETWEEN OUR TWO GOVERNMENTS IN THE PURSUIT OF OUR MUTUAL ECONOMIC OBJECTIVES, I TAKE THIS OPPORTUNITY TO OUTLINE TO YOU THE ECONOMIC OBJECTIVES AND POLICIES OF THE PORTUGUESE GOVERNMENT.

THE GOVERNMENT OF PORTUGAL, WHICH TOOK OFFICE IN JULY 1976, INHERITED VERY SERIOUS ECONOMIC PROBLEMS: PARALYSIS OF INVESTMENT, LOW WORKER PRODUCTIVITY, HIGH RATES OF INFLATION AND UNEMPLOYMENT, VERY LARGE BALANCE OF PAYMENTS DEFICITS, DISTORTED PRICE STRUCTURE, AND AN INFLUX OF ABOUT
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600,000 RETURNEES FROM THE FORMER COLONIES. SINCE TAKING

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OFFICE, THE GOVERNMENT HAS BEGUN TO DEAL WITH SOME OF THESE PROBLEMS AND HAS RESOLVED TO CONTINUE TO ATTACK THEM IN THE FRAMEWORK OF AN OPEN ECONOMY AND FREE INTERNATIONAL TRADE.

A PRIORITY OBJECTIVE OF THE PORTUGUESE GOVERNMENT IS TO ELIMINATE THE DISTORTIONS IN THE PRICE STRUCTURE WHICH DISRUPT OUTPUT AND PRODUCTIVITY. TO THIS END, THE GOVERNMENT RECOGNIZES THE NEED FOR GRADUAL REDUCTION IN THE COMMODITIES AND SERVICES UNDER PRICE CONTROLS. THE GOVERNMENT HOPES IN THE NEXT FEW MONTHS TO RELAX CONTROLS ON A NUMBER OF LESS ESSENTIAL GOODS WHICH COMPRISE ABOUT TEN PERCENT OF THE TOTAL OF ITEMS CURRENTLY ON THE PRICE CONTROL LIST. THE GOVERNMENT RECENTLY ANNOUNCED A LIBERALIZATION OF RENT CONTROLS, AIMED AT STIMULATING CONSTRUCTION IN THE HOUSING SECTOR. THE GOVERNMENT ALSO REALIZES THE NEED TO PERMIT INTEREST RATES TO REFLECT MARKET CONDITIONS, SO THAT SAVINGS MIGHT BE STIMULATED AND FUNDS CHANNELED INTO ESSENTIAL INVESTMENTS. AS A FIRST STEP IN THIS D;,ECTION, THE GOVERNMENT IS PLANNING TO INCREASE INTEREST RATES NOW CONTROLLED BY REGULATIONS GRADUALLY OVER THE NEXT SIX MONTHS.

OUR PRIMARY AIM IN THE AREA OF PUBLIC FINANCE IS TO REDUCE THE CURRENT ACCOUNT DEFICIT OF THE PUBLIC SECTOR. THE 1977 BUDGET PRESENTED TO THE PORTUGUESE ASSEMBLY ON NOVEMBER 15, CALLS FOR A REDUCTION IN THE CURRENT ACCOUNT DEFICIT OF SIX PERCENT FROM THE ACTUAL 1976 LEVEL. THE OVERALL DEFICIT OF THE PUBLIC SECTOR, WHICH INCLUDES INVESTMENTS, IS BUDGETED TO REMAIN ALMOST CONSTANT (AN INCREASE OF 1.4 PERCENT). THIS CONTAINMENT OF THE NON-INVESTMENT PORTION OF THE DEFICIT, IN THE FACE OF CONTINUED PRICE INCREASES, WILL BE ACHIEVED THROUGH THE GOVERNMENT'S INTENTION TO ELIMINATE THE SIZABLE DEFICITS OF THE SOCIAL SECURITY SYSTEM AND THE AUTONOMOUS FUNDS. THROUGH A COMBINATION OF INCREASED RATES AND RATIONALIZATION OF OPERATION, THE GOVERNMENT PLANS TO BALANCE THE SOCIAL SECURITY ACCOUNTS AND TO PRODUCE A SURPLUS IN THE AUTONOMOUS FUNDS.

AS A MEANS OF FURTHER REDUCING THE INFLATIONARY IMPACT OF THE DEFICIT, THE GOVERNMENT HAS ANNOUNCED A COMPULSORY CONFIDENTIAL

SAVING PLAN. THE TRADITIONAL THIRTEENTH MONTH SALARY IS TO BE PAID IN THE FORM OF A NON-TRANSFERRABLE SAVINGS BOND INSTEAD OF IN CASH.

THE GOVERNMENT OF PORTUGAL IS PLANNING TO IMPROVE THE BASIC INFRASTRUCTURE OF PORTUGAL THROUGH AN INCREASED LEVEL OF CAPITAL FORMATION. TO THIS END, THE PROPOSED 1977 BUDGET INCLUDES A 22 PERCENT INCREASE IN INVESTMENTS OVER

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THE 1976 LEVEL.

THE PROPOSED CENTRAL GOVERNMENT BUDGET FOR FY 1977 IS BASED ON A 15 PERCENT LIMIT ON THE "WAGE BILL" AS ANNOUNCED BY THE PRIME MINISTER ON SEPTEMBER 9. THE PUBLIC ENTERPRISES AND AGENCIES HAVE ALSO BEEN INSTRUCTED TO LIMIT THEIR RESPECTIVE WAGE BILLS TO INCREASES OF 15 PERCENT. THE GOVERNMENT EXPECTS THIS WAGE NORM TO BE A GUIDELINE FOR WAGE SETTLEMENTS IN THE PRIVATE SECTOR THAT ARE BROUGHT TO THE LABOR MINISTER FOR ARBITRATION DURING 1977.

IN KEEPING WITH THE ANNOUNCED AIMS OF AN OPEN ECONOMY AND FREE INTERNATIONAL TRADE, THE GOVE,NMENT OF PORTUGAL HAS MADE CLEAR ITS DESIRE TO CONTINUE TO MOVE IN THESE DIRECTIONS AS RAPIDLY AS CONDITIONS AND OUR FINANCIAL CAPABILITY PERMIT. IN ACHIEVING THESE OBJECTIVES, THE GOVERNMENT PLANS TO WORK CLOSELY AND IN FULL COOPERATION WITH THE INTERNATIONAL MONETARY FUND.

SINCERELY YOURS,

END TEXT

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